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DIRECTORS

MRS. KENNETH L. CAMPBELL
Toronto — President
Dover Industries Limited

GEORGE F. DOWLING
Burlington — Vice-President
Dover Industries Limited

HON. JOHN M. GODFREY, Q.C.
Toronto — Senior Partner
Campbell Godfrey & Lewtas

WILLIAM O. MORROW
Halifax — President
National Sea Products Limited

JOHN R. MCPHEE
Hamilton — Vice-President Finance
and Secretary-Treasurer
Dover Industries Limited

WILLIAM H. PINCHIN
Midland — Director
Dover Mills Limited

GORDON R. SHARWOOD
Toronto — President
Sharwood and Company

DONALD SMITH
Cambridge — Vice-President
Dover Industries Limited

JOHN M. VALLANCE
Hamilton — Purchasing Agent
Vallance Brown and Company Limited

DOUGLAS H. WARD
Toronto — Chairman
Dominion Securities Limited

C. LYLE WECKMAN
Halifax — Vice-President
Dover Industries Limited

DOUGLAS H. WIGLE
Burlington — Executive Vice-President
Dover Industries Limited

EXECUTIVE OFFICERS

MRS. KENNETH L. CAMPBELL
President

DOUGLAS H. WIGLE
Executive Vice-President

GEORGE F. DOWLING
Vice-President and General Manager
Howell Packaging Division

DAVID G. GREEN
Vice-President and General Manager
Robinson Cone Division

JOHN R. MCPHEE
Vice-President Finance
and Secretary-Treasurer

DONALD SMITH
Vice-President and General Manager
Ontario Flour and Grain Divisions

C. LYLE WECKMAN
Vice-President and General Manager
Dover Mills, Halifax

TED T. MOLNAR
Assistant Secretary

OPERATING DIVISIONS

Dover Flour Mills
Chatham and Cambridge, Ontario

Howell Packaging
Burlington, Ontario

Robinson Cone
Hamilton, Ontario

Taylor Grain
Chatham, Ontario

Grain Elevators at
Louisville, Ontario
Thamesville, Ontario
Tupperville, Ontario

OPERATING COMPANY

Dover Mills Limited
Halifax, Nova Scotia

TRANSFER AGENT

Canada Permanent Trust Company
Toronto, Ontario

HEAD OFFICE

Dover Industries Limited
145 MacNab Street North
Hamilton, Ontario

REPORT TO SHAREHOLDERS

Your Directors herewith present the 38th Annual Report of Dover Industries Limited including the Consolidated Statement for the year ending December 31, 1978 and a five year Financial Summary.

FINANCIAL HIGHLIGHTS:

Sales:

Sales for 1978 were \$39,955,913, up 8% from the previous year sales of \$37,097,127.

Earnings:

Consolidated net income for the year was \$1,517,120, compared to \$1,491,263. Earnings after provision for taxes and dividends paid on preferred shares, were \$1.70 per common share, up 3c from \$1.67 in 1977.

Dividends:

Dividends of 60c per share were paid on the preferred shares, amounting to \$61,576, and 53.2c per share on the common, which amounted to \$455,881.

Working Capital:

Working Capital was \$4,224,612, down slightly from \$4,591,605 in 1977.

Inventories:

Inventories were \$6,459,516, up 14% from \$5,673,586 in 1977.

Capital Expenditures:

Capital Expenditures for the year amounted to \$2,222,667. The major portion of this was for the remodelling and enlarging of the Cambridge Flour Mill. A fifth new cone baking machine was installed during the year at Robinson Cone Company.

OPERATIONS REVIEW:

Robinson Cone:

Sales for the year were well ahead of 1977, as all product lines — cones, packaging and plastics — were on a higher level than last year. The addition of several private label lines in cones and plastics contributed to the expanded sales. Manufacturing of all products continues to show improvement because of a more efficient control system and the addition of new equipment. Profitability of the division was improved as a result of sales increases and plant efficiencies. Emphasis is being placed on extending our product lines and the addition of new items related to an expanding fast food industry which will provide future growth and development of the division.

Howell Packaging:

Sales for the year were 9% ahead of previous year with a significant increase in last quarter bookings. This factor reflects a stronger market for packaging, as well as a stronger selling organization. Under-utilized production capacity in the industry adversely affected profit but a higher activity level at Howell's resulted in improved profit ratios in the last quarter. Improvement was noted in manufacturing operations and methods of increasing productivity are continually being developed and implemented.

Taylor Grain:

Although sales for this division increased over the previous year, highly competitive marketing conditions within the grain trade resulted in lower mark-ups and a decline in earnings. Every effort is being made to improve the efficiency of operations at our three elevators so that we may achieve a reasonable return on capital employed.

Dover Flour Mills (Ontario Division):

During 1978, the major expansion of the Cambridge Flour Mill was virtually completed. The

plant was out of operation from April until November, when limited production was resumed. Upon completion of the new bulk flour facilities, we expect to make maximum use of our increased mill capacity.

While the Cambridge Mill was shut down, the Chatham Mill remained in almost continuous operation. Additional flour was also purchased from other mills in order that our regular customers would experience no disruption in service from Dover.

We are most appreciative for the assistance offered by our competitors during the shutdown and to our customers and employees we express thanks for their cooperation, patience and understanding.

Subsidiary Company —
Dover Mills Limited — Halifax

Dover Mills Limited Halifax operating profits increased by 11% despite a 4% production drop.

Total domestic sales declined slightly but our domestic position was entrenched and we feel we are in a stronger position today than a year ago, at both bakery and consumer levels.

Elimination of the two price domestic subsidy effective January 1, 1979, will increase interest costs and receivables, which could increase risk of bakery bankruptcies with current high interest rates.

Commercial export to the Caribbean continues to fall with completion of mills in St. Lucia and St. Vincent, and a new mill in Barbados, which should be operating by mid-1979. However, Dover Mills was able to offset a major portion of this export loss with increased volume to Iceland and shipments of Russian flour were up over the previous year.

Summary:

Your Company continued to show relatively satisfactory earnings in 1978, \$1.70 per share after

allowance for taxes and preferred dividends, but the increase of 3c over 1977 was not really sufficient in the light of the current rate of inflation. The disruption caused by the closing of our Cambridge Mill for over eight months during re-modelling operations, although kept to a minimum, had some effect on the final earnings picture.

A reduction in working capital was caused by the financing of over \$2,000,000 of capital improvements completely out of retained earnings, but working capital at \$4,224,612 remains more than is needed for all foreseeable requirements. It is anticipated that the improvements in plant and the continuing effort to increase efficiency of operations will result in a better profit picture for the current year and for the future.

PERSONNEL:

Mr. Charles Stewart was appointed National Sales Manager for Robinson Cone Company.

ANNUAL MEETING:

The Annual Meeting of the Company will be held on Friday, April 20, 1979 at Howell Packaging, 3230 Mainway Avenue, Burlington. We look forward to seeing as many shareholders as possible at that time.

It is with sincere appreciation that the Board of Directors acknowledges the contribution of management and staff during the year.

Respectfully submitted
on behalf of the Board.

Nora Campbell

President
March 20, 1979

Dover Industries Limited

CONSOLIDATED BALANCE SHEET

		December 31	
		1978	1977
ASSETS			
CURRENT ASSETS:			
Accounts receivable		\$ 4,797,316	\$ 4,176,618
Inventories (Note 2)		6,459,516	5,673,586
Prepaid expenses		237,228	119,655
		<u>11,494,060</u>	<u>9,969,859</u>
FIXED ASSETS:			
Land		156,432	156,432
Buildings		3,956,569	3,518,369
Machinery and equipment		9,723,815	8,045,121
		<u>13,836,816</u>	<u>11,719,922</u>
Less: Accumulated depreciation		7,030,300	6,547,904
		<u>6,806,516</u>	<u>5,172,018</u>
Accounts receivable, secured by mortgages		155,000	150,000
Excess of cost of investment in subsidiary over net assets acquired, less amortization		27,958	34,947
		<u>\$18,483,534</u>	<u>\$15,326,824</u>
LIABILITIES			
CURRENT LIABILITIES:			
Bank indebtedness		\$ 5,057,973	\$ 3,763,127
Accounts payable and accrued liabilities		1,882,954	1,269,475
Income taxes payable		258,980	183,801
Dividends payable		15,394	15,394
Current portion of long-term debt		54,147	146,457
		<u>7,269,448</u>	<u>5,378,254</u>
Long-term debt (Note 3)		693,973	748,120
Deferred income taxes		1,200,000	880,000
SHAREHOLDERS' EQUITY			
CAPITAL STOCK:			
Authorized —			
105,000 6% cumulative preferred shares of a par value of \$10 each redeemable at par			
3,000,000 common shares without par value			
Issued —			
102,626 preferred shares		1,026,260	1,026,260
856,920 common shares		71,750	71,750
		<u>1,098,010</u>	<u>1,098,010</u>
Retained earnings		8,222,103	7,222,440
		<u>9,320,113</u>	<u>8,320,450</u>
		<u>\$18,483,534</u>	<u>\$15,326,824</u>
APPROVED BY THE BOARD:			

Mona Campbell

Director

John R McPhee

Director

Dover Industries Limited**CONSOLIDATED STATEMENT OF INCOME**

	Year ended December 31	
	1978	1977
Sales (Note 4).....	\$39,955,913	\$37,097,127
Cost of sales.....	33,835,203	31,165,285
Gross margin.....	6,120,710	5,931,842
Selling, general and administrative expenses.....	3,767,590	3,563,579
Income before taxes.....	2,353,120	2,368,263
Income taxes.....	836,000	877,000
Net income for the year.....	\$ 1,517,120	\$ 1,491,263
Net income per common share.....	\$1.70	\$1.67

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	1978	1977
Retained earnings at beginning of year.....	\$ 7,222,440	\$ 6,224,640
Net income for the year.....	1,517,120	1,491,263
	8,739,560	7,715,903
Dividends declared:		
Preferred — 60c per share.....	61,576	61,576
Common — 53.2c per share in 1978; 50.4c in 1977.....	455,881	431,887
	517,457	493,463
Retained earnings at end of year.....	\$ 8,222,103	\$ 7,222,440

Dover Industries Limited**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year ended December 31	
	1978	1977
Financial resources were provided by:		
Net income for the year	\$ 1,517,120	\$ 1,491,263
Charges not requiring a current outlay —		
Depreciation	588,169	589,470
Deferred income taxes	320,000	—
Amortization of excess of cost of investment in subsidiary over net assets acquired	6,989	6,989
Provided by operations	2,432,278	2,087,722
Financial resources were required for:		
Additions to fixed assets, net	2,222,667	573,049
Dividends to shareholders	517,457	493,463
Reduction of long-term debt	54,147	146,457
Increase in accounts receivable secured by mortgages	5,000	30,000
	2,799,271	1,242,969
Increase (decrease) in working capital	(366,993)	844,753
Working capital at beginning of year	4,591,605	3,746,852
Working capital at end of year	\$ 4,224,612	\$ 4,591,605

AUDITORS' REPORT *To the Shareholders of Dover Industries Limited:*

We have examined the consolidated balance sheet of Dover Industries Limited as at December 31, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31,

1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada
February 16, 1979

PRICE WATERHOUSE & CO.
Chartered Accountants

Dover Industries Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1978

1. ACCOUNTING POLICIES:

A summary of the significant accounting policies followed by the Company is set forth below.

(a) Consolidation of subsidiary company —

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

(b) Inventories —

Inventories are valued principally at the lower of average cost and net realizable value.

(c) Fixed assets —

Land, buildings, machinery and equipment are carried at cost, less accumulated depreciation. Expenditures for plant and equipment renewals and improvements are capitalized. The cost of disposals and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

Depreciation is computed on the straight-line method at rates estimated to amortize the cost of the assets over their estimated useful life, principally as follows:

Buildings	2½% - 10%
Equipment	10%

(d) Excess of cost of investment in subsidiary over net assets acquired —

The excess of purchase cost over net assets acquired is being amortized over five years to 1982.

(e) Income taxes —

The Company follows the tax allocation basis of accounting for taxes on income whereby deferred income taxes are provided on all significant timing differences between accounting and taxable income, principally depreciation. Investment tax credits are accounted for on the flow-through method.

2. INVENTORIES:

The inventories consist of the following —

	1978	1977
Inventory of grains	\$2,850,989	\$2,080,401
Other raw materials	982,778	966,474
Work-in-process	588,622	663,815
Finished goods	2,037,127	1,962,896
	<u>\$6,459,516</u>	<u>\$5,673,586</u>

3. LONG-TERM DEBT:

Long-term debt consists of —

	1978	1977
7% first mortgage sinking fund bonds — Series A repayable in equal annual instalments covering principal and interest and maturing on June 1, 1978.....	\$ —	\$ 95,853
Series B repayable in equal annual instalments covering principal and interest and maturing on June 1, 1987.....	748,120	798,724
	<u>748,120</u>	<u>894,577</u>
Less: Principal repayments due within one year.....	54,147	146,457
	<u>\$ 693,973</u>	<u>\$ 748,120</u>

Principal repayments of long-term debt for the next five years are as follows —

1979 — \$54,147
1980 — \$57,938
1981 — \$61,993
1982 — \$66,332
1983 — \$70,976

Interest expense on long-term debt amounted to \$56,615 in 1978 and \$66,637 in 1977. In addition, other net interest expense amounted to \$246,288 in 1978 and \$215,247 in 1977.

4. GROSS REVENUE BY CLASS OF BUSINESS:

Gross revenue includes the following classes of business —

	1978	1977
Food products.....	\$30,667,674	\$28,607,681
Packaging materials ..	9,288,239	8,489,446
	<u>\$39,955,913</u>	<u>\$37,097,127</u>

5. REMUNERATION OF DIRECTORS AND OFFICERS:

Aggregate remuneration of directors and officers for the year was as follows —

	Number	Amount
Directors.....	15	\$ 23,500
Officers (six of whom are directors).....	8	\$297,966

Dover Industries Limited

FINANCIAL SUMMARY 1974 TO 1978

	1978	1977	1976	1975	1974
Sales	\$39,955,913	\$37,097,127	\$36,042,559	\$34,117,173	\$33,924,510
Income before taxes	\$ 2,353,120	2,368,263	2,471,932	2,702,306	2,610,269
Income tax provision	\$ 836,000	877,000	1,043,000	1,153,400	1,181,400
Net income	\$ 1,517,120	1,491,263	1,428,932	1,548,906	1,428,869
Earnings retained in business	\$ 999,663	997,800	967,462	1,173,126	1,161,633
Cash flow	\$ 2,432,278	2,087,722	2,086,841	2,299,812	2,142,830
Current assets	\$11,494,060	9,969,859	9,024,652	7,754,044	7,523,167
Current liabilities	\$ 7,269,448	5,378,254	5,277,800	4,493,014	5,677,113
Working capital	\$ 4,224,612	4,591,605	3,746,852	3,261,030	1,846,054
Current ratio	1.6 to 1	1.9 to 1	1.7 to 1	1.7 to 1	1.3 to 1
Plant and equipment (net)	\$ 6,806,516	5,172,018	5,188,439	4,753,686	4,941,069
Shareholders' equity	\$ 9,320,113	8,320,450	7,322,650	6,355,188	5,182,062
Shares of preferred stock outstanding ..	102,626	102,626	102,626	102,626	102,626
Shares of common stock outstanding ..	856,920	856,920	856,920	856,920	856,920
Dividends per preferred share	\$.60	.60	.60	.60	.60
Dividends per common share	\$.532	.504	.467	.367	.24
Net income per common share	\$ 1.70	1.67	1.60	1.74	1.60
Cash flow per common share	\$ 2.77	2.36	2.36	2.61	2.43
Common stock equity per share	\$ 9.68	8.51	7.35	6.22	4.85

Years 1974 to 1976 adjusted for 3 for 1 stock split in 1977.



